

Message Text

CONFIDENTIAL

PAGE 01 STATE 002386

64

ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 EB-07 SP-02 AID-05 NSC-05

CIEP-01 SS-15 STR-04 OMB-01 CEA-01 COME-00 L-03 H-02

CIAE-00 INR-07 NSAE-00 IGA-02 /066 R

DRAFTED BY TREAS/OMEA/TWAHL/JNEWMAN:CEK

APPROVED BY EB/CSB/OSB:EKLAWSON

NEA/EGY:GBROWN

E:RPOATS (INFO)

TREAS:GPASKY

/S: MR. ORTIZ

----- 124076

R 061730Z JAN 76

FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 002386

E.O. 11652: GDS

TAGS: EINV, USEGJC, EG, US

SUBJECT: GOODYEAR INVESTMENT PROJECT

REF: A. CAIRO 12593, B. STATE 271045, C. CAIRO 12906

1. GOODYEAR REP PURCELL CALLED DEC. 12 TO DEBRIEF TREAS. ON OUTCOME OF RECENT DISCUSSIONS IN CAIRO OVER TIRE PROJECT. HE WAS CAUTIOUSLY OPTIMISTIC THAT GOE WILL APPROVE PROJECT AND STRESSED COMPANY'S VIEW THAT JWG EFFORTS HAS BEEN EXTREMELY USEFUL. GOODYEAR REPS FOUND OVERALL ATTITUDE OF GOE OFFICIALS HAD IMPROVED CONSIDERABLY AND INDICATED THEY WERE ABLE ON LAST VISIT TO HAVE ENTREE TO HIGH-LEVEL OFFICIALS WHICH THEY HAD PREVIOUSLY NOT SEEN. THEY FEEL GOE WILL ACCEPT GOODYEAR REQUIREMENT FOR 50 PERCENT EQUITY AND AS TRADE-OFF COMPANY HAS AGREED TO INCREASE TOTAL VALUE OF EQUITY IN THE INVESTMENT. THEY UNDERSTOOD QUESTION OF
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 002386

FOREIGN EXCHANGE AVAILABILITY NOW IN HANDS OF EL-GHANDOUR.

2 PURCELL EMPHASIZED AGAIN THAT COMPANY WANTS GOE APPROVAL OF PRINCIPLE THAT FOREIGN EXCHANGE WILL BE AVAILABLE TO MEET ENTIRE COST OF RAW MATERIAL IMPORTS NO MATTER WHAT LEVEL WILL BE. COMPANY FEELS THIS REASONABLE SAFEGUARD AGAINST OPERATING CUTBACKS OR SHUTDOWN OF PLANT DUE TO RAW MATERIAL SHORTAGES, AND WITHOUT SUCH ASSURANCE RISK OF INVESTMENT IN EGYPT WOULD BE TOO HIGH.

3. GOODYEAR REPS INDICATE THAT GOE OFFICIALS WITH WHOM THEY HAD BEEN DISCUSSING PROJECT WERE AWARE OF APPROXIMATE TOTAL FOREIGN EXCHANGE GUARANTEE BEING SOUGHT, AND THIS HAD BEEN STIPULATED IN SEVERAL PRESENTATIONS TO GOE. PM SALEM'S UNDERSTANDING THAT FIGURE WAS IN FACT LARGER (REF A PARA 8) IS EVIDENCE OF THIS FACT. GOODYEAR REPS POINT OUT THAT ESTIMATE OF 18.8 MILLION DOLS TOTAL WAS BASED ON QUANTITY AND PRICE CALCULATIONS MADE AT POINT IN TIME AND IS SUBJECT TO CHANGE AS WORLD PRICES CHANGE. THUS EVEN IF 25 PERCENT EXPORT TARGET (NOTED REF C) INDICATES LOWER NET FOREIGN EXCHANGE REQUIREMENT, IT IS OUR UNDERSTANDING THESE REMAIN ESTIMATES AND GOODYEAR WOULD

STILL WANT BE ABLE OBTAIN ALL FOREIGN EXCHANGE THAT WOULD PROVE NECESSARY TO PERMIT OPTIMAL CAPACITY UTILIZATION, AN OBJECTIVE WE ASSUME GOE WOULD SHARE.

4. WE SHARE EMBASSY'S CONCERN AT MISUNDERSTANDING WHICH AROSE FROM EMPHASIS IN GOODYEAR'S PRESENTATIONS ON REQUEST FOR 7 MILLION DOLS AT THE OFFICIAL RATE. OUR NOTES OF JWG MEETING INDICATE THAT GOE INVESTMENT AUTHORITY OFFICIAL OUTLINING SALIENT FEATURES OF PROPOSAL STATED CORRECTLY THAT GOODYEAR WAS SEEKING 7 MILLION DOL GUARANTEE AT OFFICIAL RATE OF EXCHANGE BUT DID NOT INDICATE WHETHER HE WAS AWARE THAT TOTAL FOREIGN EXCHANGE GUARANTEE BEING SOUGHT BY GOODYEAR WAS MUCH LARGER. US SIDE DID NOT CONFIRM OR EXPAND ON GOE PRESENTATION OF THIS POINT. IN LIGHT OF SUBSEQUENT CONFUSION ON ISSUE, IT CLEARLY WOULD HAVE BEEN USEFUL IF DISCUSSION IN JWG HAD BROUGHT OUT GOODYEAR'S POSITION FULLY, AND IN PARTICULAR IF US SIDE

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 002386

HAD MADE SURE THAT EGYPTIAN SIDE WAS AWARE THAT 7 MILLION DOLS WAS NOT TOTAL REQUIREMENT.

5. FOR THE RECORD IT SHOULD BE NOTED THAT SUMMARY OF

GOODYEAR PROPOSAL GIVEN IN ITEM 5 OF REF B DID INDICATE THAT 7 MILLION DOLS REPRESENTED ONLY A PORTION OF TOTAL RAW MATERIAL NEEDS. SUMMARY NOTED THAT GOODYEAR WAS

REQUESTING "THE FREE AVAILABILITY OF FOREIGN EXCHANGE TO COVER RAW MATERIAL REQUIREMENTS OF WHICH 7 MILLION DOLS MUST BE AT THE OFFICIAL RATE OF EXCHANGE."

6. PURCELL IN CONVERSATION DEC. 16 INDICATED THAT GOE AND GOODYEAR ARE EXPLORING POSSIBILITY OF A GUARANTEE FOR THE ENTIRE FOREIGN EXCHANGE REQUIREMENT AT PARALLEL RATE. EL-GHANDOUR ALSO TOLD PARSKY IN PARIS THAT HE HAD BEEN IN-

STRUCTED TO STUDY CAREFULLY THE ECONOMICS OF THE GOODYEAR INVESTMENT PROPOSAL AND PLANT OPERATIONS. THIS HAS BEEN CONFIRMED BY PURCELL WHO SAID HE HAS EXPLAINED TO EGYPTIANS THAT DEPRECIATION CHARGES FOR EXPENSIVE PLANT EQUIPMENT WILL RESULT IN RELATIVELY HIGH TOTAL COSTS FOR FIRST FEW YEARS OF OPERATIONS BUT THAT PLANT WILL THEN BECOME INTERNATIONALLY COMPETITIVE AS EVIDENCED BY GOOD-YEAR REQUEST FOR SIGNIFICANT TARIFF PROTECTION ONLY FOR INITIAL PERIOD.

7. GOODYEAR HAS NOW SENT LETTER TO MININD COMPARING COSTS OF GOODYEAR'S U.K. PLANT WITH ESTIMATED COSTS OF PROPOSED EGYPTIAN PLANT. COPIES WERE SENT SHAFEI, ABDEL FATTAH, MAREI AND A. KHODARY. LETTER PROVIDES DATA ON TOTAL AND UNIT COSTS IN EGYPTIAN POUNDS, BY CATEGORY, OF U.K. AND EGYPTIAN PLANTS, USING BOTH OFFICIAL AND PARALLEL MARKET EXCHANGE RATES. RELEVANT UNIT COST DATA ARE GROUPED AS FOLLOWS:

-- (LE THOUSANDS PER 100 KILOS OUTPUT)

	EGYPT	EGYPT		
	U.K.	3 YR.	5TH YR.	
	OFFICIAL	OFFICIAL	PARALLEL	OFFICIAL

CONFIDENTIAL

CONFIDENTIAL

PAGE 04 STATE 002386

	RATE	RATE	RATE	RATE
--	------	------	------	------

	(\$2.58)	(\$2.58)	(\$1.70)	(\$2.58)
--	----------	----------	----------	----------

RAW

MATERIALS	.3345	.3654	.5546	.3566
-----------	-------	-------	-------	-------

LABOR,

SALARIES,

OVERHEAD	.2653	.1933	.2348	.1763
----------	-------	-------	-------	-------

SUB-TOTAL	.5998	.5587	.7894	.5329
-----------	-------	-------	-------	-------

"PRODUCTION

COST"

DEPRECIATION .0250 .0623 .0874 .0459

-- U.K. EGYPT PARALLEL EGYPT
 -- OFFICIAL 3 YR. RATE 5TH YR.
 -- RATE OFFICIAL (\$1.70) OFFICIAL
 -- RATE RATE
 -- (\$2.58) (\$2.58) (\$2.58)

ORGANIZATION 0 .0085 .0109 0
 AND MISC.
 EXPENDITURES,
 TRAINING

DUTIES, FREIGHT, 0 .1071 .1591 .1022
 INSURANCE ETC.
 ON RAW MATE-
 RIALS

TOTAL COST .6247 .7366 1.0468 .6810

(VARIABLE AND FIXED)
 (TOTALS MAY NOT ADD DUE TO ROUNDING.)

8. EMBASSY WILL NOTE THAT DEPRECIATION CHARGE IN 3RD
 YEAR MORE THAN DOUBLE PRESENT CHARGE IN U.K. PLANT
 SINCE MUCH OF LATTER HAS ALREADY BEEN WRITTEN-OFF.
 CONFIDENTIAL

CONFIDENTIAL

PAGE 05 STATE 002386

ALSO, ALMOST ALL MATERIAL INPUTS TO U.K. PLANT ARE
 OBTAINED DOMESTICALLY AND THUS THERE ARE NO DUTIES OR
 FREIGHT, ETC. EVEN ADDING THIS ENTRY AND DEPRECIATION
 TO "PRODUCTION COST", DATA SHOW UNIT COST OF EGYPTIAN
 PLANT IN FIFTH YEAR LESS THAN 10 PERCENT ABOVE U.K.
 PLANT. KISSINGER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN INVESTMENT, JOINT VENTURES, INDUSTRIAL PLANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 06 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE002386
Document Source: CORE
Document Unique ID: 00
Drafter: CEK
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760004-0432
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760182/aaaacvhr.tel
Line Count: 207
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN TRSE
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 CAIRO 12593, 76 STATE 271045, 76 CAIRO 12906
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 12 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 APR 2004 by ElyME>; APPROVED <16 AUG 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOODYEAR INVESTMENT PROJECT
TAGS: EINV, EG, US, USEGJC, GOODYEAR
To: CAIRO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006